STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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HOUSE OF
REPRESENTATIVES

JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, December 20, 2005
9:30 a.m.
House Hearing Room 4

MEETING NOTICE

- Call to Order
- Approval of Minutes of November 29, 2005.
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

1. AHCCCS
   A. Review of Capitation Rate Changes for the Medicare Clawback Payment.
   B. Review of Comprehensive Medical and Dental Program Capitation Rate Changes.

2. DEPARTMENT OF ECONOMIC SECURITY
   A. Review of Long Term Care Capitation Rate Changes.
   B. Review of FY 2006 Expenditure Plan for Workforce Investment Act Monies.

The Chairman reserves the right to set the order of the agenda.
12/13/05

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HOUSE OF
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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

November 29, 2005

The Chairman called the meeting to order at 9:40 a.m., Tuesday, November 29, 2005, in House Hearing Room 4. The following were present:

Members:	Representative Pearce, Chairman	Senator Burns, Vice-Chairman
	Representative Biggs	Senator Cannell
	Representative Boone	Senator Garcia
	Representative Burton Cahill	Senator Harper
	Representative Huffman	Senator Martin
	Representative Tully	Senator Waring
Absent:	Representative Gorman	Senator Arzberger
	Representative Lopez	Senator Bee

APPROVAL OF MINUTES

Representative Pearce moved that the Committee approve the minutes of October 26, 2005. The motion carried.

DEPARTMENT OF PUBLIC SAFETY (DPS) – Quarterly Review of the Arizona Public Safety Communications Advisory Commission (PSCC).

Mr. Martin Lorenzo, JLBC Staff, said in the first quarter PSCC expenditures totaled $160,200 of nearly $4.3 million in available funding. Of the $4.3 million, $3 million is non-lapsing. Additionally, DPS hired 1 of 3 engineering positions bringing their total staff to 6 of 9 positions. A timeline developed by PSCC targets the establishment of a financing and development plan for the system by July 2008. With regard to their updated timeline, they have begun to draft operational policies and procedures as well as minimum equipment standards and guidelines for mobile radios. At the last JLBC meeting, the Committee requested further information regarding the Department of Emergency and Military Affairs (DEMA) short-term project and the extent of the PSCC's involvement. As a result, the PSCC has indicated that they are providing technical oversight and direction to DEMA on the short-term interoperability solution, which is expansion of the current Arizona emergency radio system. Current plans include the repair and expansion of the system. The system will expand by 35 sites and the PSCC and DEMA estimate deploying a pilot project in Coconino County in late 2005.

Representative Pearce noted that DPS is working with Homeland Security to get approximately $1.6 million to upgrade DPS' microwave communication system and towers and asked if that is a done deal.

Mr. Curt Knight, Department of Public Safety, said there was discussion of Homeland Security authorizing $1.6 million for DPS to use towards the beginning of the microwave replacement. He said that until recently they were not sure if they could use those monies to actually enter into a lease-purchase agreement. They thought they could use it for a one-time lump sum purchase, but it was designed to enter into a long-term issue that was about 14 years long as far as the funding issue to replace the microwave. DPS did receive a favorable review from the Attorney General's Office. They are now ready to issue an RFP or request for quotation to interested parties for a lease-purchase agreement. He did not have the exact timing of that at this time.

Representative Pearce expressed his concern as to how the Homeland Security money is expended. He wants to see it used for security and protection of dams, Palo Verde and facilities like that.

Senator Burns said that DEMA and DPS are working to achieve interoperability short-term and asked Mr. Knight to update them on how that is going.

Mr. Knight said that item was to revitalize or repair the original interagency radio system. It was deployed nearly 30 years ago as some of the early phases of addressing this problem, which was how do the Sheriff's office and DPS communicate. That system was never fully deployed, only in about 17 remote communication sites and was not part of the plan that was regularly used. It was recognized as still a plausible solution in the short-term. The 17 sites that were deployed need to be revitalized as well as an additional 30 sites across the state. The Division of Emergency Management has issued purchase orders for equipment for 33 of the 47 total sites. With the early purchases, a pilot project is being deployed in the Coconino area. Some exercises are expected in mid December 2005 to prove the concept of the technology and to exercise some of the policies and procedures that are being worked on.

Senator Burns asked how the short-term items can be phased into the long-term items.

Mr. Knight said that they will be able to work the 2 together. That was one of the reasons they thought the PSCC should back this short-term effort that DEMA was going forward with. They see it as a bridge into the future. They are still going to need some bridge between legacy systems and whatever the new system is. All the jurisdictions that will participate will be in a different funding cycle. Some will take longer to decide to participate in the long-term solution.

Senator Burns noted that Graham and Greenlee Counties are working on a joint interoperability system. He asked if there are other local areas working on these same things.

Mr. Knight said there are and in addition, there are several models, nationwide, on how a state would deploy an interoperable solution. Some would be where the state starts it up and encourages local jurisdictions to participate. Another model would be for local jurisdictions, that for a number of reasons are advanced from the state as far as providing a solution, would deploy these individual solutions but with some common standards. In the long run, maybe the state's job would be to fill in the blanks between those jurisdictions and provide the conductivity in what will be the microwave replacement solution. That would link these individual solutions together.

Representative Pearce asked if there is compensation for jurisdictions that get involved in the early stages and provide funding and then another jurisdiction comes in much later and is able to take advantage of what is in place and been paid for.

Mr. Knight said he did not have a good answer for that. They are aware of it and think that it is something where a government structure should be established.

Senator Burns said when they talk about local jurisdictions planning and putting together those systems, he thought the PSCC was put in place to develop a statewide program. Funding was in place for that effort based on a workload that covered the entire project. He asked if local jurisdictions are picking up some of that, does that mean that the funding will actually be less than was made available.

Mr. Knight said that the funding level that is in place is just essentially planning money and possibly a small pilot project. There have been several numbers quoted as far as what the total bill might be. The possibility exists that because some of the jurisdictions such as Yuma or Greenlee County have already deployed the system, the total cost might be lower. At this point, he does not believe they are overfunded.

Representative Huffman commented that he has worked with them over the past year in trying to figure this out. He said they are going to be introducing some legislation that deals with what he considers the state's responsibility and that is the microwave backbone. No matter what the local communities are doing they are going to have to have that linkage so all the entities can work with each other. It would be hard to get voters to vote for a bond issue for something that may extend outside their geographical boundaries. He feels the state should be involved and the legislation specifically instructs them to seek funding from Homeland Security and federal funding and then to return any monies that the state appropriates to offset what they get from the federal government. The Legislature needs to go forward on this and give them the authority for the lease-purchase agreement.

Senator Burns moved that the Committee give a favorable review as recommended by the JLBC Staff to approve the FY 2006 first quarter expenditures and progress for the statewide interoperability design project. The motion carried.

EXECUTIVE SESSION

A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

Senator Burns moved that the Committee go into Executive Session. The motion carried.

At 10:00 a.m. the Joint Legislative Budget Committee went into Executive Session.

Senator Burns moved that the Committee reconvene into open session. The motion carried.

At 12:00 p.m. the Committee reconvened into open session.

Senator Burns moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Lyftogt v. State of Arizona. The motion failed by a roll call vote of 4-6-0-6 (Attachment A).

Senator Burns moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Alexander v. State of Arizona. The motion failed by a roll call vote of 4-6-0-6 (Attachment A).

B. Annual Performance Review and Consideration of JLBC Staff Director Salary under Rule 7 and A.R.S. § 38-431.03.

Senator Burns moved that the Committee approve the recommended salary adjustment of $7,800 for the JLBC Staff Director. The motion carried.

Chairman Pearce adjourned the meeting at 12:07 p.m.

Respectfully submitted:

____
Cheryl Kestner, Secretary

____
Richard Stavneak, Director

____
Representative Russell Pearce, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 West Adams.

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STEPHEN TULLY

DATE: December 13, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Carson Howell, Fiscal Analyst
Russell Frandsen, Fiscal Analyst

SUBJECT: AHCCCS – Review of Capitation Rate Changes for the Medicare Clawback Payment

Request

Pursuant to two footnotes in the General Appropriation Act, the Arizona Health Care Cost Containment system (AHCCCS) is required to report the Medicare Clawback expenditure plan and capitation rate changes to the Committee for review. The new Medicare Prescription Drug Program will allow the state to reduce its AHCCCS expenditures, resulting in lower capitation rates. The federal government, however, is recouping most of this savings through a "Clawback" payment.

Recommendation

JLBC Staff recommends a favorable review of AHCCCS capitation rate plan as it can be funded within the existing appropriation.

Additionally, the Committee has at least the following options for AHCCCS expenditure plan for Medicare Clawback payments and the distribution of prescription drug program savings between the state and counties. The state and counties share in the cost of the Arizona Long Term Care System (ALTCS).

1. A favorable review of AHCCCS expenditure plan proposal. Counties would receive 50% of savings from the reduced cap rates but pay approximately 67% of the Clawback cost. In returning the savings, AHCCCS believes this approach is consistent with A.R.S. § 11-292N, which requires any unused ALTCS budget authority to be distributed evenly between the state and counties at the end of each fiscal year. This option would have a net cost to the counties of $1.1 million, while the net savings to the state would be $(1.8) million. These state savings would be used to offset the current AHCCCS FY 2006 shortfall due to higher-than-expected inflation.

2. An unfavorable review of AHCCCS' expenditure plan proposal, since it does not allocate both savings and Clawback payment proportionally. A proportional distribution of payments and savings would have net results of $(223,300) savings to the state and $(456,100) savings to the counties.

Analysis

On January 1, 2006, the federal Medicaid Modernization Act will be implemented. This program will provide prescription drug benefits for individuals who are eligible for both Title XIX Medicaid and Medicare. The prescription drugs for this "dual-eligible" population are currently provided through Title XIX Medicaid **-** at the expense of the state. (The counties also share in the cost of the Long Term Care program). Beginning January 1, 2006, those prescription drug costs will then be paid by the federal government.

The current capitation rates paid to AHCCCS health plans include the cost of providing prescription drug benefits to the dual-eligible population. Since these costs will be assumed by the federal government, AHCCCS is requesting a reduction in the capitation rates *(please see Table 1 below for additional information)*. Of the $(26) million savings for the 6 months of FY 2006, $(17.1) million is in acute care and $(8.9) million in ALTCS; however, the state and counties will not realize the entire $(26) million.

Since the federal government will be paying for the prescription drugs for dual-eligibles, the federal government is requiring that the state pay approximately 90% of the prescription drug savings back to the federal government. This "Clawback" amount is calculated by the federal government by reviewing actual state data of prescription drug costs in 2003. This amount is then trended forward to 2006 using the national average of prescription drug cost growth. Current Clawback payments are estimated at $19.6 million in FY 2006. Of the $19.6 million in payments, $11.4 million is in acute care and $8.2 million in ALTCS *(please see Table 1 below for additional information)*.

Table 1

Drug Program Savings & Clawback Payments

	Acute	ALTCS	Total
Program Savings	$17,145,400	$8,860,500	$26,005,900
Distribution of Savings:			
Clawback	11,376,600	8,181,100	19,557,700
Retained in Program	5,768,800	679,400	6,448,200
Total	**$17,145,400**	**$8,860,500**	**$26,005,900**

The Committee has at least 2 options in how to distribute the $8.9 million in savings between the state and counties in the ALTCS program *(see Table 2)*. Under both options, the Clawback payment will be distributed proportionately between the state and counties, based on each government's total share of ALTCS costs. The saving distribution options are:

(1) 50/50 split between the state and counties as per A.R.S. § 11-292N, resulting in a net cost to the counties and higher savings for the state. By following A.R.S. § 11-292N, distributing savings in a 50/50 split between the state and counties would result in a net cost to the counties of $1.1 million with state savings of $(1.7) million *(please see attachment 1, Table 1 for county by county information)*.

(2) Proportional savings based on each county's proportion of the FY 2006 ALTCS appropriation, resulting in savings to both the state and the counties. By dividing the savings proportionally between the state and counties, the state would receive approximately $(223,300) in savings with the counties receiving $(456,100) in savings *(please see attachment 1, Table 2 for county by county information)*.

Table 2

ALTCS Drug Program Savings Distribution Options

	(1) 50/50 Savings	(2) Proportional Savings
Clawback Payments	$8,181,100	$8,181,100
General Fund	2,688,200	2,688,200
County Funds	5,492,900	5,492,900
Capitation Rate Savings	$8,860,500	$8,860,500
General Fund	4,430,200	2,911,500
County Funds	4,430,300	5,949,000
Net Cost (Savings)	$ (679,400)	$(679,400)
General Fund	(1,742,000)	(223,300)
County Funds	1,062,600	(456,100)

The Clawback payment in either option would be the same, $2.7 million General Fund and $5.5 million County Funds. The difference is in the distribution of the savings from the reduced capitation rates. AHCCCS proposes to share the capitation reduction 50/50 between the state and the counties as per A.R.S. § 11-292N. This statutory provision states that any unused ALTCS monies at the end of the fiscal year be distributed evenly to the counties and the state. In this option $(8.9) million of capitation rate savings would be distributed $(4.4) million to each the state and the counties. The net impact would be an overall $(1.7) million General Fund savings and an additional cost to County Funds of $1.1 million.

Another option is to return capitation rate savings in proportion to overall costs. In the original FY 2006 appropriation, counties paid 67% of ALTCS costs with the state paying the remaining 33%. When the $(8.9) million of capitation rate savings is distributed proportionally, the net overall impact (Clawback and capitation rate reduction) is a county savings of $(223,300) while the state saves $(456,100) General Fund.

In addition, JLBC Staff is currently working on a revised FY 2006 ALTCS estimate due to higher than expected inflation. As part of that revision, the original FY 2006 appropriation appears to have overestimated the state contribution due to a calculation error. As a result, the FY 2006 ALTCS appropriation may need to be adjusted and either of these 2 options could be incorporated into the revised estimates.

AHCCCS' current expenditure plan is to make the Clawback payments with existing funds and retain the savings in their budget. Under option 1, the net savings of $(1.7) million will be used to help offset a FY 2006 deficit. In option 2, $(223,300) in savings would be available to use as an offset.

Acute Care

This population represents members who participate in AHCCCS' Title XIX or Title XXI (KidsCare) Acute Care programs.

At the September 1, 2005 JLBC meeting, the Committee approved an average 6.1% increase in capitation rates. Four groups' capitation rates are now further affected by the Medicare Prescription Drug Program: TANF adults, SSI w/ Medicare, Medical Expense Deduction (MED), and AHCCCS Care (AHC). The Clawback recalculation results in a 4.8% average reduction in the capitation rates for affected groups since prescription drug costs will now be shifted to the Medicare program. *(Please see Table 3 below for more detail.)*

Long Term Care (ALTCS)
ALTCS services are provided to the elderly and physically disabled in need of long-term care either in nursing care facilities or in home and community-based settings (HCBS).

At the September 1, 2005 JLBC meeting, the Committee approved a 14.3% increase in capitation rates. The Medicare Prescription Drug Program recalculation results in a 5.6% reduction in those capitation rates. *(Please see Table 3 below for more detail.)*

Table 3

Monthly Regular Capitation Rates

	Current Rates	Proposed Rates
Acute		
TANF < 1	$427.98	$427.98
TANF 1-13	104.76	104.76
TANF 14-44 FEMALE	187.02	185.72
TANF 14-44 MALE	128.89	127.25
TANF 45+	371.35	359.98
SSI W/ MEDICARE 1/	307.66	185.68
SSI W/O MEDICARE	577.64	577.64
MED (Prop 204)	842.76	827.15
AHC (Prop 204)	426.73	425.67
ALTCS		
Non-Ventilator	$3,171.07	$2,993.94
Acute Only	839.33	665.67

1/ Approximately 54,000 Member Months will be moved from the SSI Without Medicare category to the SSI With Medicare category. This population shift is responsible for a $22.07 increase in the capitation rate for the SSI With Medicare category.

The savings are artificially high because FY 2006 will include 6 months of savings and only 5 months of payments. The state stops providing services on January 1, 2006 and the first payment to the federal government is not due until February 2006.

Future Trends
Every calendar year the federal government will apply two changes to the state's calculated Clawback payment. These changes represent one increase and one decrease. Every calendar year, the payment will be increased based on the national health expenditures averages. At the same time, the payment will be decreased by 1.67% each calendar year until 2015. The intent of the decrease is to provide a higher percentage of the savings to the state. The first Clawback payment is intended to capture 90% of the payment while the Clawback payments in 2015 are designed to capture 75% of the savings.

Because the federal government is using a national average to increase the state's payments, it is possible that the state may eventually end up paying the federal government more money than it saves. If Arizona's prescription costs increase at a rate lower than the national average, then the money owed in Clawback payments may eventually be larger than the savings. Because Arizona had the lowest per capita drug costs in the nation as calculated by the federal government for these Clawback payments, the state may be at greater risk for higher-than-average prescription cost increases.

RS/RF:ck
Attachments

Attachment 1

Option #1 – 50/50 State/County Savings

Table 1

Proportional Payments with 50/50 Savings

	Payments	Savings	Net Cost (Savings)
Apache	$ 13,200	$ 10,700	$ 2,500
Cochise	145,000	117,000	28,000
Coconino	39,700	32,000	7,700
Gila	76,400	61,700	14,700
Graham	24,200	19,500	4,700
Greenlee	3,200	2,600	600
La Paz	19,900	16,100	3,800
Maricopa	3,264,600	2,632,900	631,700
Mohave	184,000	148,400	35,600
Navajo	54,700	44,100	10,600
Pima	1,032,800	832,900	199,900
Pinal	243,000	196,000	47,000
Santa Cruz	52,700	42,500	10,200
Yavapai	187,400	151,200	36,200
Yuma	152,100	122,700	29,400
Total	**$5,492,900**	**$4,430,300**	**$1,062,600**
General Fund	2,688,200	4,430,200	(1,742,000)

Option #2 – Proportional County Savings

Table 2

Proportional Payments with Proportional Savings

	Payments	Savings	Net Cost (Savings)
Apache	$ 13,200	$ 14,300	$ (1,100)
Cochise	145,000	157,100	(12,100)
Coconino	39,700	42,900	(3,200)
Gila	76,400	82,800	(6,400)
Graham	24,200	26,200	(2,000)
Greenlee	3,200	3,400	(200)
La Paz	19,900	21,600	(1,700)
Maricopa	3,264,600	3,535,700	(271,100)
Mohave	184,000	199,300	(15,300)
Navajo	54,700	59,200	(4,500)
Pima	1,032,800	1,118,500	(85,700)
Pinal	243,000	263,200	(20,200)
Santa Cruz	52,700	57,100	(4,400)
Yavapai	187,400	203,000	(15,600)
Yuma	152,100	164,700	(12,600)
Total	**$5,492,900**	**$5,949,000**	**$(456,100)**
General Fund	2,688,200	2,911,500	(223,300)

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DATE: December 13, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Carson Howell, Fiscal Analyst

SUBJECT: Arizona Health Care Cost Containment System – Review of Comprehensive Medical and Dental Program (CMDP) Capitation Rate Changes

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to report on changes to the Comprehensive Medical Dental Program (CMDP) capitation rates to the Committee for review. AHCCCS is recommending a 0.6% increase to the CMDP capitation rates effective January 1, 2006 until December 31, 2006.

Recommendation

The JLBC recommends a favorable review of the AHCCCS request. The proposed rates are based upon an actuarial study and represent an increase above the current rates of approximately 0.6%. The proposed rate increase adds approximately $35,200 General Fund ($106,500 Total Funds) to the cost of AHCCCS in FY 2006 and would lead to annualized General Fund costs of approximately $70,400 in FY 2007.

Analysis

Title XIX is a federal entitlement program and states are required to provide reimbursement rates in managed care programs that are actuarially sound. AHCCCS' actuaries use encounter data, financial information and projected enrollment to determine the actual cost of services, and thereby recommend increases or decreases in capitation rates. The Comprehensive Medical Dental Program (CMDP) provides acute care medical services to children in foster care and is administered by the Department of Economic Security.

There are 2 payment categories within CMDP – Prospective rates and Prior Period rates. The AHCCCS request includes no change to the Prospective rates (which represents the vast majority of the CMDP population) and a 20.7% increase to the Prior Period rates. The Prior Period population represents 2.7% of the entire CMDP population. Because the Prior Period population is so small, a 20.7% increase to this group's rate increases the overall CMDP rate by only 0.6%.

Prior Period Capitation (PPC) refers to the time between when someone applies for AHCCCS and the time that they are deemed eligible. During that time, the health plans are paid a higher rate. The overall budget impact of the PPC rate increase will depend on how much time is needed to determine eligibility. The current fiscal impact of these rates is based on the current average time it takes to determine eligibility.

RS/CH:ym
Attachment

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HOUSE OF
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DATE: December 12, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Russell Frandsen, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of Long Term Care Capitation Rate Changes

Request

Pursuant to a FY 2006 General Appropriation Act footnote, the Department of Economic Security (DES) is presenting its expenditure plan for proposed capitation rate adjustments in the federal Title XIX Long Term Care (LTC) program. Capitation rates are a fixed amount paid for every person in the Developmentally Disabled Long Term Care Program. The proposed capitation adjustments are related to legislatively-approved provider rate increases and the implementation of the Medicare Prescription Drug program.

Summary

The JLBC Staff recommends a favorable review of the request. The proposed rates can be funded from the existing DES budget.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DES contracts with an actuarial firm, which uses claims, encounter data, and projected enrollment to determine the actual costs of services and, thereby, recommends increases or decreases in the capitation rates. Once DES requests a change in rates, the new rates must be approved by the Arizona Health Care Cost Containment System (AHCCCS).

The proposed rates reflect 2 primary adjustments:

1. A $13.6 million annual increase in provider rates ($6 million General Fund and $7.6 million Federal Funds) approved by the Legislature effective July 1, 2005 for the FY 2006 budget. At its September 1st meeting, the Committee favorably reviewed DES' proposed distribution of these monies. The department is now proposing corresponding adjustments in the capitation rates to reflect these changes.

(Continued)

2. A $1.1 million GF reduction in Acute Care capitation rates to reflect implementation of the new Medicare Prescription Drug program on January 1, 2006. Under this program, certain prescription drug costs will now be covered by the Medicare program rather than the Title XIX Medicaid program. *(See Agenda Item 1 for more information on this subject).* The federal government will re-coup $870,000 of this savings in the form of a "Clawback" payment.

The revised per member per month (PMPM) rates are shown below. Almost all clients served by DES in the LTC program are categorized as enrolled.

Category	**Original 1/1/05-6/30/06 Rate**	**New 1/1/06-6/30/06 Rate**	**% Change**
Enrolled (Non-Ventilator Dependent)	$ 2,947.49	$ 2,973.54	0.9%
Ventilator Dependent	$11,893.28	$11,949.53	0.5%

The increases in the Enrolled category are allocated as follows:

Category	**Original 1/1/05-6/30/06 Rate**	**New 1/1/06-6/30/06 Rate**	**% Change**
Aid to Individuals	$2,144.25	$2,198.56	2.53%
Acute Care Services	355.34	326.17	-8.21%
Case Management Services	127.13	127.13	0.00%
Administration	220.10	220.10	0.00%
Risk/Profit	42.70	43.09	0.91%
Share of Cost	-2.88	-2.88	N/A
Premium Tax	60.85	61.37	0.85%
Total - DES LTC	**$2,947.49**	**$2,973.54**	**0.88%**
Behavioral Health (DHS pass-through)	95.03	95.03	0.00%
Total Enrolled Rate	**$3,042.52**	**$3,068.57**	**0.86%**

The increases in the Aid to Individuals reflect the approved provider rate increases. The Acute Care services change represents the Medicare Prescription Drug Program shift. Risk/Profit is a risk contingency amount equal to 1.6 % of the Aid to Individuals, Acute Care, and Case Management line items. The Share of Cost category reflects AHCCCS' decision to adjust the capitation rate for cost recovery on LTC costs. There are no new program adjustments in the proposed new capitation rates.

RS/RF:ck
Attachment

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LINDA J. LOPEZ
STEPHEN TULLY

DATE: December 13, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of FY 2006 Expenditure Plan for Workforce Investment Act Monies

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Economic Security (DES) is submitting an expenditure plan for $77,000 of the discretionary portion of federal Workforce Investment Act (WIA) monies received by the state for FY 2006. Unlike most Federal Funds, the WIA monies are subject to legislative appropriation due to federal requirements. The Committee previously approved $2.3 million of FY 2006 WIA expenditures in July 2005. DES has indicated that it will present an expenditure plan for remaining WIA monies at a later JLBC meeting.

Recommendation

The JLBC Staff recommends a favorable review of DES' expenditure plan with the provision that DES and the Department of Commerce provide performance measures for the new program to the Committee by March 1, 2005. The program activities and expenditure levels being sought seem reasonable and represent functions typically funded by WIA dollars.

The JLBC Staff also recommends that DES in conjunction with the Department of Commerce provide a written explanation for their failure to provide performance measure information as requested for FY 2005 expenditures.

Analysis

The DES Workforce Development Administration is the state's grant recipient for federal WIA funds from the U.S. Department of Labor. Monies in this grant require legislative appropriation under federal law. For FY 2006, the Legislature appropriated $3,614,000 from the WIA grant for discretionary WIA activities, contingent on Committee review. In July 2005, the Committee favorably reviewed an expenditure plan for $2,307,000, with the understanding that expenditure plans for the remaining monies would be presented at a future date. DES is now presenting the expenditure plan for an additional $77,000. After this expenditure, the amount remaining for review is $1,230,000.

DES's submission is a recommendation from the Governor's Council on Workforce Policy (GCWP) to provide $77,000 to the Pima Council on Aging (PCOA) for the Mature Worker Connection (MWC) program. This program is a job placement service for job seekers age 50 and older in Pima County. While the program is open to all age 50+ job seekers, it specifically targets women, minorities and low income seniors. The PCOA is also partnering with local one-stop in Pima County to provide a database and computer system that provides information on jobs, applicants and employers specific to the age 50+ job seekers. The database is intended to eventually interface with the Virtual One-Stop (VOS) system. The PCOA is considering the placement of representatives for the MWC program in the local one-stops.

Table 1 shows this requested expenditure as well as expenditures already approved in FY 2005 and FY 2006.

Table 1

Governor's Council Recommendation of 15% Set-Aside

Programs to be Reviewed	Agency	FY 2005	FY 2006	Net Change
Mature Worker Connection		$ -	$ 77,000	$ 77,000
Subtotal: Plan to be Reviewed		**$ -**	**$ 77,000**	**$ 77,000**
Programs Favorably Reviewed by Committee				
Jobs for Arizona Graduates		$184,900	$ -	$(184,900)
Training for LWIAs	LWIA	170,000	-	(170,000)
Local Labor Market Information	ADOC	180,000	-	(180,000)
Early Childhood Educators Scholarships	ADE	433,000	-	(433,000)
High Tech Education	ADOC	250,000	-	(250,000)
Master Teacher	ADE	450,000	-	(450,000)
Postsecondary Preparedness	GOV	150,000	-	(150,000)
Youth Programs	LWIA	301,000	-	(301,000)
Women's Programs	GOV	450,000	-	(450,000)
Eligible Training Provider List	ADE	127,000	127,000	-
Incentive Funds for LWIAs	LWIA	500,000	350,000	(150,000)
Technical Assistance	LWIA	250,000	250,000	-
System Building	LWIA	300,000	300,000	-
High Concentration of Youth Activities		200,000	150,000	(50,000)
Virtual One Stop	DES	325,000	300,000	(25,000)
Evaluation	GOV	125,000	100,000	(25,000)
Apprenticeship	ADOC	70,000	130,000	60,000
ADOC/State Council	ADOC	600,000	600,000	-
Subtotal: Plan Already Reviewed		**$5,065,900** 1/	**$2,307,000**	**$(2,758,900)**
Unallocated Appropriation		**$ -**	**$1,230,000**	**$1,230,000**
TOTAL 15% SET-ASIDE		**$3,266,600**	**$3,614,000**	**$ 347,400**

1/ Includes $974,900 in prior year funding not expended in FY 2004

Legend

ADE	Department of Education	LWIA	Local Workforce Investment Areas
GOV	Governor's Office	ADOC	Department of Commerce
DES	Department of Economic Security	CC	Community Colleges

In FY 2005, the Committee favorably reviewed nearly $1.4 million of WIA grant monies for new programs with the condition that the department provide the Committee with performance measures for these new programs. At the June 28, 2005 meeting, the Committee reviewed the last of these programs and asked that the performance measures be submitted by September 1. To date, the department has failed to submit any of the requested performance measures. This failure appears to be, at least in part, a result of the lack of coordination between DES and the Department of Commerce, which staffs the GCWP and makes recommendations on how to spend the WIA grant monies.

RS/EJ:ck